

Solid foundation and attractive prospects in Latin America

Latin American economy still on course for success

In 2005, growth in Latin America continued, gaining additional momentum in some areas in the second half of the year. The favorable economic trend in the US and continuous robust demand for raw materials from the Far East had a particularly positive impact, leading to a sharp rise in export revenues.

Amid economic conditions which were very much shaped by local factors, Argentina and Venezuela achieved the highest growth rates, followed by Costa Rica and Chile. The two regional heavyweights Mexico and Brazil reported weaker, but nonetheless impressive economic growth.

Cement demand up considerably

Mexico benefited from higher public spending on roadbuilding and energy supplies and from measures to promote the construction of social housing. Favorable loans and sharp rises in remittances from migrant workers abroad also boosted private housebuilding.

In Central America and the Caribbean, tourism projects and the expansion of ports and other transport infrastructure led in the main to rising volumes of building materials. Colombia recorded a huge increase in cement consumption, mainly thanks to a buoyant private construction sector, and in Ecuador too, demand increased. In Venezuela, the accelerated expansion of the subway network in Valencia and Caracas boosted the construction sector.

In 2005, the Brazilian construction sector made some headway and cement consumption rose slightly. In Argentina, more public funds were available to finance projects during the second half of the year and private demand for construction services also remained robust despite restricted access to credit. In Chile, demand for building materials was once again up on the previous year's already high level.

Rising demand for construction materials

Group region Latin America increased its cement deliveries by 15 percent to 23.7 million tonnes. Shipments of aggregates edged down by 3.3 percent to 11.7 million tonnes as a result of temporary fluctuations in demand in Central America and Chile and the sale of a quarry in Guayaquil (Ecuador). In ready-mix concrete, we achieved an increase of 6.1 percent to 8.7 million cubic meters thanks to the positive market situation in Chile, Argentina and Mexico.

| Consolidated key figures Latin America | 2005 | 2004 | ±% |
|---|--------|--------|-------|
| Production capacity cement in million t | 34.9 | 34.5 | +1.2 |
| Cement and grinding plants | 28 | 27 | – |
| Aggregates plants | 28 | 30 | – |
| Ready-mix concrete plants | 228 | 219 | – |
| Sales of cement in million t | 23.7 | 20.6 | +15.0 |
| Sales of aggregates in million t | 11.7 | 12.1 | –3.3 |
| Sales of ready-mix concrete in million m ³ | 8.7 | 8.2 | +6.1 |
| Net sales in million CHF | 3,158 | 2,785 | +13.4 |
| Operating EBITDA ¹ in million CHF | 1,126 | 1,095 | +2.8 |
| Operating EBITDA margin ¹ in % | 35.7 | 39.3 | – |
| Personnel | 10,904 | 10,676 | +2.1 |

¹ Prior-year figures adjusted to certain Group expenditures.

Holcim Apasco in Mexico made progress in all segments. Our Group company benefited from a rise in demand for cement within Mexico and took the opportunity to export to targeted markets. The rise in volumes in the ready-mix concrete segment is partly due to the construction of new thermal power plants in the north of the country and on the Gulf of Mexico. The “Circuito Mexiquense” project for the expansion of drinking water supplies in the greater Mexico City area also generated higher demand for concrete.

In Central America, the main source of higher delivery volumes was Cemento de El Salvador, which was consolidated for the full year for the first time. A further development worth noting was the increase in volumes at Holcim Costa Rica. The higher capacity of the Cartago plant enabled the Group company to keep pace with growth in the domestic market and deliver clinker to Nicaragua. In Panama, where our Group company supplies high-quality products for port installations and the expansion of the Pan-American Highway, shipments once again reached a high level. With 3.4 million tonnes of cement sold, business at the other companies in Central America and the Caribbean in which we have interests was also satisfactory.

Rising demand for building materials in Colombia, Venezuela and Ecuador led to higher sales volumes for Group companies. Holcim Brazil also sold slightly more cement during the period under review. In the ready-mix concrete segment, our Group company consciously accepted a decline in volumes and concentrated on market areas in which the full product range can be supplied as an integrated customer solution. In Argentina, Minetti benefited from an increase in the use of concrete for roadbuilding. At Cemento Polpaico in Chile, an increase in investment in the mining industry and the construction of a number of toll expressways led to higher sales of cement and ready-mix concrete.

Operating result at high level

Group region Latin America succeeded in lifting operating EBITDA by 2.8 percent to CHF 1,126 million. Internal operating EBITDA growth was, however, negative. Due to the continued price erosion in Brazil and Colombia, it decreased by 4 percent.

Practically all Group companies contributed to this improved result. Holcim Apasco was able to increase its domestic and export sales, as well as its deliveries of ready-mix concrete. A systematic drive to replace conventional fuels made it possible to partially offset lower cement prices and the sharp rise in energy costs.

Thanks to extensive restructuring measures, Holcim Ecuador significantly increased its profitability in the aggregates and ready-mix concrete segments and achieved a marked improvement in its operating result. By contrast, at Holcim Colombia and Holcim Brazil extensive operational cost-cutting measures and higher delivery volumes failed to compensate for the considerable pressure on prices.

Holcim Costa Rica and Minetti in Argentina significantly exceeded prior-year levels. For the first time, Cemento de El Salvador also made a key contribution to the financial result of this Group region. At the beginning of the year, Holcim increased its stake in the leading cement manufacturer from 50 percent to 64.2 percent.

Increase in plant efficiency

Group region Latin America once again invested substantial funds in plant efficiency and measures to streamline its cost structure. In Costa Rica, a new type of cement mill facilitated an improvement in product quality and a significant reduction in electricity consumption. In Mexico, Venezuela, Argentina and Chile in particular, the expansion of vehicle fleet in the ready-mix concrete segment made it possible to serve customers more efficiently and share in future market growth.

Growing use of alternative fuels and raw materials

Another focus of investment activity was the creation of additional storage and manufacturing capacity for the use of alternative fuels and raw materials. Moreover, all companies systematically continued working on projects to curb emissions. Holcim Apasco increased the proportion of petroleum coke and alternative fuels at all production sites. The other Latin American Group companies also made substantial progress in the use of alternative heat sources (see the example of Holcim Brazil on pages 60 and 61). During the period under review, Holcim Colombia, Cemento de El Salvador and Cemento Polpaico in Chile established their own waste disposal businesses with a view to ensuring continuous supplies of alternative fuels and extending potential supply sources to include additional waste materials.

On the alternative materials front we also reached some important milestones. The Argentinean plants at Córdoba and Mendoza successfully tested the industrial scale use of mineral components. In future, this will enable the manufacture of more blended cements with lower clinker content, translating into a reduction in CO₂ emissions per tonne. Holcim Brazil opened a new research and training center in São Paulo in which employees and customers can acquire application-specific product knowledge. The modernization of the operating facilities at the Cerro Blanco site in Chile led to an improvement in environmental efficiency in the plant's own pozzolan quarry.

Latin America will continue to achieve good results

Demand for cement in the individual countries of Latin America is expected to remain attractive. The construction sector should derive stimuli from both residential building and infrastructural expansion. We are once again expecting this Group region to enjoy solid demand and good operating results.